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Coffee

Coffee annual report

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Report Highlights:

Despite a prolonged drought in Vietnam, Vietnam's 2004/05 coffee production was 870 thousand metric tons (tmt), only a slight drop compared with the last crop due to new production from previously un-recorded areas. Due to an increase in world prices, Vietnam's coffee exports in 2004/05 increased by 8% in value even though they decreased by 4% in volume. Vietnam's 2005/06 coffee crop is expected to drop by 15% to 740 tmt due to unfavorable weather in key coffee growing areas causing low coffee yield. Coffee prices for both domestic and export markets are expected to increase, as domestic stocks are low.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Table 1: Vietnam's coffee Production, Supply and Demand (PSD table)
(1000 HA)(MILLION TREES)(1000 60 KG BAGS)

	2004	Revised	2005	Estimate	2006	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		10/2003		10/2004		10/2005
Area Planted	510	510	500	500	500	500
Area Harvested	500	500	495	495	450	485
Bearing Trees	625	625	619	619	562	605
Non-Bearing Trees	13	13	6	6	62	12
TOTAL Tree Population	638	638	625	625	624	617
Beginning Stocks	333	333	317	300	484	300
Arabica Production	266	266	300	383	300	333
Robusta Production	14734	14734	13867	14117	11867	12000
Other Production	0	0	0	0	0	0
TOTAL Production	15000	15000	14167	14500	12167	12333
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	15333	15333	14484	14800	12651	12633
Bean Exports	14483	14483	13333	13900	11667	11817
Roast & Ground Exports	0	0	0	0	0	0
Soluble Exports	0	17	0	17	0	18
TOTAL Exports	14483	14500	13333	13917	11667	11835
Roast, Ground Domestic Consumption	533	533	667	583	750	600
Soluble Domestic Consumption	0	0	0	0	0	0
TOTAL Domestic Consumption	533	533	667	583	750	600
Ending Stocks	317	300	484	300	234	198
TOTAL DISTRIBUTION	15333	15333	14484	14800	12651	12633

PRODUCTION

Vietnam's 2004/05 Coffee Production

Post revised Vietnam's 2004/05 coffee production only slightly to 870 tmt or 14.5 million bags (60 kg).

Vietnam's 2005/06 Coffee Production

Post estimates Vietnam's 2005/06 coffee production at 740 tmt (13.16 million thousand bags) due to severe drought early in calendar 2005 that caused lower crop yield (see table 2).

The 2005/06 harvested area is estimated to have shrunk to 485 thousand hectares because of unproductive coffee fields in key coffee production provinces in Tay Nguyen (Central Highland) due to prolong drought. In Daklak province, the largest coffee producing province in Vietnam, 10-15 thousand ha of harvested coffee yielded almost nothing because of the drought. The average 2005/06 coffee crop yields are also expected to decline by 13% compare with that of 2004/05 crop due to unfavorable weather and lack of water for irrigation.

Table 2: Vietnam Coffee Production (Marketing Year, Oct-Sep)

Unit: thousand tons

	2003/04		2004/05		2005/06	
Marketing year begins	10/2003		10/2004			10/2005
	Old	Revised	Old	Revised	Old	Revised
Sown Area (thousand ha)	510	510	500	500	500	500
Area Harvested (thousand ha)	500	500	495	495	450	485
Beginning Stock	20	20	19	18	29	18
Production (green bean)	900	900	850	870	730	740
Average coffee yield (ton/ha)	1.8	1.8	1.72	1.76	1.62	1.53

Source: Vicofa, FAS estimate

CONSUMPTION

Post revised Vietnam's CY 2004/2005 coffee domestic consumption increasing it to 35 tmt (or 583 thousand bags) from last crop year's consumption of 32 MT. Vietnam agricultural officials hope to increase domestic coffee consumption to 60 tmt (about 1 million 60 kg bags) by 2010. Local coffee producers are encouraged by the government to:

- *establish their own coffee brand names in the local market.*
- *produce more value-added coffee products such as roast and ground coffees, soluble coffee etc to meet consumption demands and tastes of the local market.*
- *enhance communication activities to promote different coffee products.*
- *Open many more cafes in the country to meet consumption demands*

In recent years, many local coffee producers have started producing roast & ground coffee and soluble coffee products for domestic consumption. Some of those products have been accepted by local people such as Trung Nguyen coffee, G7 coffee, Truc Tam coffee, VN coffee, Simexco coffee, Bien Hoa coffee etc.

TRADE

Vietnam's coffee exports in 2004/05 crop was 835 tmt (13.9 thousand bags), a drop of 4% compared with the previous crop. However, coffee export value in 2004/2005 increased by 9% as average export prices increased (see table 3).

Table 3: Vietnam's 2003/04 and 2004/05 coffee exports

Month	2003/2004		2004/2005		% Change	
	Quantity (tmt)	Value (US\$ million)	Quantity (tmt)	Value (US\$ million)	Quantity	Value
October	46	30	65	40	41	33
November	55	35	55	34	0	-3
December	85	53	87	56	2	6
January	69	44	82	54	19	23
February	87	57	64	43	-26	-24
March	83	55	82	60	-1	9
April	83	54	82	62	-1	15
May	79	52	71	59	-10	13
June	119	79	71	59	-40	-25
July	56	37	65	54	16	46
August	51	33	58	48	14	45
September	57	38	53	45	-7	18
Grand Total	870	567	835	614	-4	8

Source: Vicofa and Ministry of Trade

In CY 2004/2005, Germany and the United States remain the top importers of Vietnamese coffee. Italy, Spain and the republic of Korea completed the list of the top five buyer countries.

Table 4: Vietnam's top coffee buyers in CY 2004/2005

S/N	Country	Volume (MT)	Value (thousand US\$)
1	Germany	127,853	90,189
2	The United States	117,520	85,761
3	Italy	95,667	73,353
4	Spain	68,263	51,206
5	The republic of Korea	34,512	23,808
6	The UK	27,940	19,333
7	Philippines	26,865	19,255
8	France	26,265	18,575
9	Japan	25,800	21,126
10	India	22,908	15,823

Source: Vicofa

According to traders, despite higher world prices, Vietnamese coffee exports in the first months of 2005/2006 are expected to slow because of tight supplies. There is no official data on coffee stocks available. The beginning carrying over stock for 2005/06 is estimated as high as 18 tmt (300 thousand bags), most being held by the foreign trade. Traders complain that it is not easy presently to buy new crop coffee for export because farmers and dealers are holding back coffee in hopes of higher prices. Post estimates Vietnam's coffee export in

2005/06 will decline to 710 tmt (11.8 million bags) due to lower coffee production (see PS&D table).

PRICES

Domestic prices

Average prices of Vietnam Robusta coffee bean (grade 1) were between VND 13,500-13,800/kg (\$0.85-\$0.87/kg) in September 2005, an increase of 83% compared with the same period of last year.

As table 5 illustrates domestic coffee prices in DakLak, the largest coffee-producing province in Vietnam. Local prices for Arabica coffee are stated in a Table 6.

Table 5: Robusta coffee bean domestic prices in Dak Lak province in 2004/2005 crop

Unit: VND/kg

Month	Coffee grades		
	General Robusta bean VND/kg	Robusta coffee grade R1 VND/kg	Robusta coffee grade R2 (5%) VND/kg
Oct. 04	6,900-7,100	7,400-7,600	6,400-7,600
Nov. 04	7,700-8,000	9,300-9,400	8,500-8,650
Dec. 04	9,300-9,500	11,400-11,500	10,700-10,800
Jan. 05	9,500-11,000	10,400-11,500	10,700-10,800
Feb. 05	10,400-11,500	10,600-11,500	10,700-10,800
Mar. 05	10,700-14,300	14,200-15,000	15,300-15,700
Apr. 05	14,200-15,000	15,200-15,500	14,600-14,800
May. 05	15,300-15,700	15,500-15,700	15,200-15,300
Jun. 05	16,400-17,500	17,500-19,000	17,200-18,500
Jul. 05	16,800-17,500	18,000-18,500	17,200-17,500
Aug. 05	12,300-13,500	13,800-16,000	12,800-15,300
Sep. 05	12,000-13,000	13,500-13,800	12,500-13,500

Source: Vicofa, MOT, MARD, FAS

Table 6: Arabica coffee bean prices in Lam Dong province in the last months of 2004/2005 crop

Unit: VND/kg

Coffee Grades	May. 05	Jun. 05	Jul. 05	Aug. 05	Sep. 05
Arabica coffee – Grade 1	23,000- 24,000	25,000- 26,500	27,500- 28,000	28,500- 29,700	22,150- 23,000
Arabica coffee – Grade 2	22,000- 22,500	23,000- 24,000	25,000- 25,500	26,400- 27,600	21,000- 21,500

Source: Vicofa, MOT, MARD, FAS

According to local traders, domestic coffee prices will go up in the first months of the new crop year because of low supply from this year's smaller crop.

At current prices, the typical coffee grower can still earn profit from selling coffee as the prices exceed the production cost. According to interviews with farmers in Lam Dong and Daklak provinces, the estimated production cost ranges between VND 9,000-10,000/kg for Robusta coffee beans and VND 12,000-15,000/kg for Arabica coffee beans.

Export prices

Vietnam coffee export prices increased considerably during the 2004/05 marketing year. The offered prices for grade 1 Vietnam coffee bean in Sept. 05 ranged between US\$ 810 and US\$ 830/mt (FOB HCMC), an increase of more than 35% compared with prices quoted during the first month of CY 2004/5 coffee crop (October 2004).

In total, Vietnam's average coffee export price in 2004/05 crop were more than 13% higher than those of 2003/04 (see table 7).

Local traders estimate that the export prices for the new coffee crop 2005/06 will be 5-10% higher than ones in the latest months of the 2004/05 crop due to lower coffee stocks in the international market. Already, Vietnam's export price for Robusta grade 1 coffee in Oct. 2005 were quoted at \$860-870/MT FOB HCMC, an increase of \$30-40/MT compared with last month. The prices reached \$920/MT in early November. Current Arabica export prices were quoted at US\$1,900-2,100/MT FOB HCMC.

Table 7: Vietnam's average coffee export prices

Month	2003/04 crop	2004/05 crop	Change (%)
	(USD/mt)	(USD/mt)	
October	651.8	612.1	-6.1
November	629.5	613.8	-2.5
December	631.8	637.8	1.0
January	641.1	658.8	2.8
February	663.5	672.6	1.4
March	656.7	732.5	11.5
April	655.2	759.2	15.9
May	660.9	828.8	25.4
June	663.7	835.2	25.9
July	660.6	828.8	25.4
August	645.7	839.8	30.1
September	630.9	828.2	31.3
Average price for 2004/2005 crop	649.28	737.3	13.5

Source: Vicofa

POLICY AND OTHER INDUSTRY'S ACTIVITIES

- The Ministry of Agriculture and Rural Development (MARD) has developed a paper entitled "Strategy to develop a sustainable coffee industry in Vietnam". The Vietnamese government encourages coffee producing provinces to restructure the coffee sector by reducing low-yielding Robusta coffee areas and increasing Arabica coffee acreage. However, post feels this switch may be difficult. Talks with coffee growers in Tay Nguyen reveal that they are often not interested in Arabica coffee as it is not cost effective.
- The Vietnam Coffee and Cocoa Association (Vicofa) and Vietnam's Standards and Quality Center for Food and Agricultural Products are completing a new set of government standards for coffee beans. The new standard set will be issued at the earliest December 2005.
- Up to now, certifications for coffee in Vietnam are rare. Only a few companies in Vietnam have products licensed with a Utz Kapeh certificate (sustainable coffee production certificate). The companies say the inconvenience and cost of registering outweighs the slightly higher price that farmers can obtain.
- VICOFA is considering proposing the government allow building up central coffee warehouses in main coffee areas to enable coffee growers and dealers to exchange coffee products. In this model, coffee growers will be advanced up to 50% of the value of their coffee until the growers and dealers agree on prices. It is felt that this not only helps coffee growers improve their selling prices, but also keep Vietnam's coffee beans in a better condition. However, this is just a proposal practical steps toward implementation have not yet been taken.
- Vietnam trading companies just started participating in the Coffee London Future Market (LIFFE). However, Vietnamese trading companies' involvement is still limited due to lack of knowledge of the market, and lack of appropriate legal frameworks in Vietnam. VICOFA notes the need for coffee risk management training courses to strengthen management capacity for coffee growers and dealers.

- Vietnam in cooperation with GTZ and a group of companies from Germany, Netherlands, and Switzerland has **Error! No index entries found.** been implementing the sustainable coffee agriculture project in three pilot provinces: Son La in the north, along with Quang Tri and Daklak in central Vietnam. The organizers hope the projects will be multiplied widely in Vietnam with the aim of raising product quality, improving food safety, and strengthening environmental protection.
- Recently, United States-based Mercon Coffee inaugurated a US\$1.5-million coffee processing factory in Long Thanh Industrial Park in the southern province of Dong Nai. The Mercafe factory will be able to clean, polish and sort 15,000 tons of coffee beans in its first year and will be able to process 20,000 to 30,000 tons in its second year. Mercon trades about 300,000 tons of coffee beans a year worldwide. Its main markets are in the United States, Central America and Europe.